



FINAL EXAMINATION
MODEL QUESTION PAPER
PAPER – 15

SET - 1
TERM – JUNE 2025
SYLLABUS 2022

DIRECT TAX LAWS AND INTERNATIONAL TAXATION

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

SECTION – A (Compulsory)

1) Choose the correct option:

[15 x 2 = 30]

- (i) Mr. Ram has won a lottery prize. After deduction of tax, he received ₹14 lakhs. He has spent ₹60,000 by way of purchase of lottery tickets and for collecting the prize money. The amount chargeable to tax in his hands in this regard is
- (a) ₹20 lakhs
(b) ₹14 lakhs
(c) ₹19.40 lakhs
(d) ₹13.40 lakhs
- (ii) Mr. Bala is using a Computer for his personal purposes, but charges as business expenditure. This is the case of _____.
- (a) Tax Planning
(b) Tax Avoidance
(c) Tax Management
(d) Tax Evasion
- (iii) Mr. Ganesh, a businessman, whose total income (before allowing deduction under section 80GG) for A.Y.2025-26 is ₹4,60,000, paid house rent at ₹12,000 p.m. in respect of residential accommodation occupied by him at Mumbai. What is the deduction allowable to him under section 80GG for A.Y.2025-26 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?
- (a) ₹98,000
(b) ₹1,15,000
(c) ₹60,000
(d) ₹1,00,000
- (iv) Where unit of assessee is located in an International Financial Services Centre(IFSC) and derive its income solely in foreign exchange, then MAT is applicable @_____ under section 115JB (7).
- (a) 15%
(b) 7%
(c) 18.5%
(d) 9%



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- (v) As per section 178(3), the _____ of a company has to intimate the tax authority before he parts with any of the assets of the company or the properties in his hands and has to set aside the amount if any intimated to him by the tax authorities.
- (a) Managing Director
(b) Manager
(c) Chartered Accountant
(d) Liquidator
- (vi) What is the maximum of surcharge that can be applied on individual taxpayer in respect of income by way of long-term capital gain?
- (a) 25%
(b) 15%
(c) 37%
(d) 10%
- (vii) Abhisek was found to be the owner of jewellery worth ₹26,60,000 during the financial year ending 31.03.2025 which was not recorded in his books of account and he could not offer satisfactory explanation of the source of income for acquiring the same. How much of income-tax is payable by Abhisek under section 115BBE (including surcharge and cess, if any) for the said jewellery?
- (a) ₹20,74,800
(b) ₹15,95,000
(c) ₹18,62,000
(d) ₹20,00,000
- (viii) In which financial transaction is quoting the 'Permanent Account Number' (PAN) compulsory?
- (a) Cash payment of ₹40,000 to a hotel against a bill at any one time
(b) Sale or purchase of any immovable property valued at ₹4,00,000
(c) Payment of ₹35,000 to RBI for acquiring bonds issued by it
(d) Payment exceeding ₹50,000 to a mutual fund for purchase of its unit
- (ix) XYZ company engaged in the business of manufacturing & Bio-technology incurs (i) expenditure on scientific research towards land ₹10 lakhs and building ₹12 lakhs; (ii) other capital expenditures ₹8 lakhs and (iii) revenue expenditure of ₹5 lakhs. The quantum of deduction under Section 35 (2AB) shall be
- (a) Nil (as the company engaged in the business of manufacturing & Bio-technology)
(b) ₹30 lakhs (100% of capital expenditure including cost of land & building)
(c) ₹25 lakhs (100% of total expenditure other than cost of land)
(d) ₹23 lakhs (100% of total expenditure other than cost of building)
- (x) Which section deals with methods of computation of arm's length price?
- (a) 92A
(b) 92C
(c) 92D
(d) 92B



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- (xi) M/s. Potato Ltd. a company having international transactions of ₹3 crores related to purchase of raw materials from its subsidiary company M/s. Tomato Inc., in USA. M/s. Potato Ltd. is required to keep and maintain certain information and documents under section 92D for period of _____ years from the end of relevant A.Y.
- (a) 5
(b) 6
(c) 10
(d) 8
- (xii) When interest paid by an Indian company to a foreign company being an associated enterprise, such interest must not exceed _____ % of the Indian company's earnings before interest, taxes, depreciation and amortization (EBITDA).
- (a) 10
(b) 20
(c) 30
(d) 40
- (xiii) If any person fails to keep and maintain any such information and document as required by sec. 92D in respect of an international transaction or specified domestic transaction, the Assessing Officer or Commissioner (Appeals) may direct that such person shall pay, by way of penalty, a sum equal to
- (a) ₹5,00,000
(b) 2% of the value of each international transaction or specified domestic transaction entered into by such person
(c) 1% of the value of each international transaction or specified domestic transaction entered into by such person
(d) ₹1,00,000
- (xiv) Secondary adjustment is necessary when the primary adjustment surpasses what value?
- (a) ₹50 lakhs
(b) ₹100 lakhs
(c) ₹300 lakhs
(d) ₹500 lakhs
- (xv) What is Berry Ratio in relation to the computation of the Arm's length price of an international transaction?
- (a) Gross profit/ Operating Expenses
(b) EBITDA/Shareholder's funds
(c) Net Profit/Gross profit
(d) Long term debts/Shareholders funds



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SECTION – B

Answer any 5 questions out of 7 questions given. Each question carries 14 marks.

[5 x 14 = 70]

- 2) The trading profit and loss account of Subash Trading Pvt. Ltd. having business of agricultural produce, consume items and other products for the year ended 31.03.2025 is as under.

Trading Account

Particulars	₹	Particulars	₹
Opening Stock	3,75,000	Sales	1,55,50,000
Purchases	1,25,75,000	Closing Stock	4,50,000
Freight and Cartage	1,26,000		
Gross Profit	29,24,000		
	1,60,00,000		1,60,00,000

Profit and Loss Account

Particulars	₹	Particulars	₹
Bonus to Staff	47,500	Gross Profit	29,24,000
Rent of Premises	53,500	Income Tax Refund	20,000
Advertisement	5,00	Warehousing Charges	15,00,000
Bad Debts	75,000		
Interest on Loans	1,67,500		
Depreciation	71,500		
GST Demand Paid	1,08,350		
Misc. Expenses	5,25,650		
Net Profit of the year	33,90,000		
	44,44,000		44,44,000

On Scrutiny of records, the following further information and details were extracted/gathered:

- (i) There was a survey u/s 133A on the business premises on 31.03.2025 in which it was revealed that the value of closing stocks on 31.03.2024 was ₹8,75,000 and a sale of ₹75,000 made on 13.03.2025 was not recorded in the books. The value of closing stocks after considering these facts and on the basis of inventory prepared by the department as on 31.03.2025 worked out at ₹12,50,000/- which was accepted to be correct and not disputed.
- (ii) Income Tax Refund includes amount of ₹5,570/- of Interest allowed thereon.
- (iii) Bonus to Staff includes an amount of ₹5,500 paid in the month of December,2024 which was provided in the books on 31.03.2024.
- (iv) Rent of premises includes an amount of ₹5,500/- incurred on repairs. The Assessee was under no obligation to incur such expenses as per rent agreement.
- (v) Advertisement expenses include an amount of ₹2,500/- paid for advertisement published in the souvenir issued by a political party. The payment is made by way of an account payee cheque.



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- (vi) Miscellaneous Expenses include:
- (a) Amount of ₹25,000/- paid towards penalty for non-fulfilment of delivery conditions of a contract of sale for the reason beyond control.
 - (b) Amount of ₹1,00,000/- paid to the wife of a director, who is working as junior lawyer for taking an opinion on a disputed matter. The junior advocate of High Courts normally charges only ₹25,000/- for the same opinion.
 - (c) Amount of ₹1,00,000 paid to an electoral Trust by a cheque.
- (vii) GST demand paid includes and amount of ₹5,300/- charges as penalty for delayed filing of returns and ₹12,750/- towards interest for delay in deposit of tax.
- (viii) The company had made an investment of ₹25 lakhs on the construction of a warehouse in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.09.2024 and the income from this activity is credited in the Profit and Loss Account under the head “Warehousing Charges”.
- (ix) Depreciation under the Income Tax Act, 1961 works out at ₹65,000/-.
- (x) Interest on loans includes an amount of ₹60,000/- on which tax was not deducted.

Compute the Income chargeable to tax for A.Y.2025-26 for Subash Trading Pvt. Ltd. indicating reasons for treatment of each items. Ignore the provisions relating to minimum alternate tax & provision of section 115BAA. [14]

- 3) (a) Amar (aged 35) owns 2 residential house properties, of which, one is used for own residential purpose and the other is let out for a monthly rent of ₹50,000. He bought these houses by taking housing loan from SBI. During the financial year 2024-25, he paid interest on housing loan amounting to ₹2,50,000 each for both the houses and total principal repayment of ₹ 2,00,000. He is doing business by name Mercury Traders in which his income(computed) amounts to ₹11,80,000.

Determine his income as per section 115BAC and regular provisions. Also suggest which one should be opted by Amar for the A.Y. 2025-26. [7]

- (b) Sure Success Ltd. wants to acquire an asset costing ₹1,00,000. It has two options are available, the first one is buying the asset by taking a loan repayable in five instalments of ₹20,000 each with 14% interest per annum. The second is leasing the asset for which the annual lease rental charge is ₹30,000 up to 5 years. The lessor charges 1% as a processing fee in the first year. Assume the internal rate of return to be 10%. The present value factors are: —

Year	1	2	3	4	5
P/V Factor	.909	.826	.751	.683	.621

Assuming that the payments are made at the end of the year, suggest which alternative is better for the company. The rate of depreciation is 15% while the tax rate is 33.22%. [7]



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- 4) (a) M/s AP a wholesale enterprise, has sold one of its undertaking consisting of Machinery A (rate of depreciation 30%), Machinery X (rate of depreciation 15%), Building B (rate of depreciation 10%) for ₹15,00,000 on 1/9/2024.
- ◆ Machinery A, originally acquired for ₹5,00,000 on 1/8/2021
 - ◆ Building B acquired on 17/7/2024 for ₹4,00,000.
 - ◆ During the year, new machinery Z (15%) purchased for ₹ 5,00,000 on 7/7/2024.

Compute depreciation for the A.Y.2025-26:

- Machinery (rate of depreciation 30%) block [WDV as on 1/4/2024 is ₹9,00,000]
- Building (rate of depreciation 10%) block [WDV as on 1/4/2024 is ₹5,00,000]. [7]

- (b) Eoin Morgan, a foreign national and a cricketer came to India as a member of England cricket team in the year ended 31st march, 2025. He received ₹6 lakhs for a participation matches in India. He also received ₹2 lakhs for an advertisement of a brand Soap on TV. He contributed articles in a journal for which he received ₹15,000. When he stayed in India, he also won a prize of ₹10,000 from lotteries in Delhi. He has no other income in India during the year. Assume assessee opt out from section 115BAC.
- (i) Compute tax liability of Morgan for Assessment Year 2025-26.
 - (ii) Are the income specified above subject to deduction of tax at source?
 - (iii) Is he liable to file his return of income for assessment Year 2025-26?
 - (iv) What would have been his tax liability, had he been a match referee instead of a cricketer? [7]

- 5) (a) Make a comparative study of revision u/s 263 & revision u/s 264. [7]

- (b) Discuss the disclosure requirements of ICDS VII. [7]

- 6) (a) Explain briefly the different Model Tax Conventions that are currently in vogue and their significance in international taxation. [7]

- (b) Mr. Virat Pandey, aged 62 years, a resident individual furnishes the following particulars of income earned by him in India and in Canada for the previous year 2024-25. India does not have a double taxation avoidance agreement with Canada.

Particulars	Amount (₹)
Gross Salary in India	6,25,000
Professional Income received in Country Canada	4,80,000
Dividend Income in Country Canada	88,000
Rent from House Property Situated in Country Canada	1,80,000
Interest Income on FDR's with Bank of Baroda, Pune Branch	62,000
Paid interest on Housing Loan to Punjab National Bank, Pune branch for the residential property, where he and his family resides	1,80,000
Investment in Public Provident Fund	1,20,000
Medical Insurance Premium paid for himself	35,000

Assume the tax rate in Country Canada is 12%.

Compute the total income and tax liability of Mr. Virat Pandey for the Assessment Year 2025-26 as per default tax regime u/s 115BAC. [7]



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- 7) (a) AB Ltd. is an Indian Company in which Oceania Ltd., a US company, has 32% shareholding and voting power. Following transactions were effected between these two companies during the financial year 2024-25.
- (i) AB Ltd. sold 1,00,000 pieces of T-shirts at \$3 per T-shirt to Oceania Ltd., The identical T-Shirts were sold to unrelated party at \$4 per T-Shirt.
 - (ii) AB Ltd. borrowed \$2,00,000 from a foreign lender based on the guarantee of Oceania Ltd. for this AB Ltd. paid \$10,000 as guarantee fee to Oceania Ltd. To an unrelated party for the same amount of loan, Oceania Ltd. collected \$8,000 as guarantee fee.
 - (iii) AB Ltd. paid \$15,000 to Oceania Ltd. for getting various potential customers details to improve its business. Oceania Ltd. provided the same service to unrelated parties for \$12,000.
 - (iv) Assume the rate of exchange as 1\$ = ₹84

AB Ltd. is located in a Special Economic (SEZ) and its income before transfer pricing adjustments for the year ended 31st March, 2025 was ₹1,200 lakhs.

Compute the adjustments to be made to the total income of AB Ltd. State whether it can claim deduction u/s 10AA for the income enhanced by applying transfer pricing provisions. [7]

- (b) Babusan (P) Ltd. is a Subsidiary of Robert LLC of USA. On 1st June, 2024 Babusan (P) Ltd. borrowed ₹2500 lakhs from Robert LLC for which interest is payable at 6% per annum. There is no other borrowing made by Babusan (P) Ltd.

The Net profit of Babusan (P) Ltd. for the year ended 31st March, 2025 was ₹95 lakhs after deduction of the following: (i) Depreciation ₹50 lakhs; (ii) Provision for Income-tax ₹20 lakhs; (iii) Amortisation of preliminary expenditure ₹10 lakhs; and (iv) Interest on loan borrowed from Robert LLC.

Explain thin capitalization's applicability and compute the amount of interest eligible for deduction and /or liable for disallowance in the case of Babusan (P) Ltd. Also state the consequence of interest disallowance. [7]

- 8) Present your answer for the following situations under the headings:

- (i) Issue Involved
- (ii) Provision Applicable
- (iii) Analysis & Conclusion

- (a) Mr. Rajesh Filled his Income-tax Return for A.Y. 2023-24 on July 25, 2023. He declared a total income of ₹15,05,000.

Total Income includes interest from Public Provident Fund (PPF) ₹62,530 and long-term capital gains on agricultural land exempt u/s 10(37). Both these incomes were disclosed in the schedule of exempt income.

Mr. Rajesh also found that by mistake he failed to claim the current year business loss in the income-tax return amounting to ₹3,37,000 which he is entitled to claim.

In due course of time, the above Income-tax Return got processed u/s 143 (1) and both the above exemptions for interest on Public Provident Fund and long-term capital gains on agricultural land were denied. Intimation was served to Mr. Rajesh and a demand of tax was raised.



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For all the above mistakes in the return he filed a revised return u/s 139 (5) but time limit for e-verification of revised return had lapsed and the same became invalid.

Assessee filed for rectification u/s 154 which was also rejected by the Assessing Officer. Is the Assessing Officer bound to accept the request of Mr. Rajesh? [7]

- (b) Jobo (P) Ltd., an Indian Company earned fee for technical services from Power Inc., a company resident in USA amounting to ₹2 crores. The company paid ₹30 lakhs as federal taxes in USA. During the course of assessment proceedings in India, the Assessing Officer allowed the foreign tax credit to the extent of ₹20 lakhs only from Income tax payable in India by Jobo (P) Ltd. The company accepted the non-allowance of Foreign tax credit to the extent of ₹10 lakhs, however it wants to claim deduction of the disallowed portion of foreign tax as business expenditure deductible from its income chargeable to tax in India.

Discuss the correctness of the assessee's claim. [7]